ANNUAL REPORT 2001

THE POWER *of* PERFORMANCE

TransCanada Power, L.P.

FINANCIAL HIGHLIGHTS

Year ended December 31 (millions of dollars, except per unit amounts)

	2001	2000
Power generated (GWh)	2,358	2,291
Average plant availability	98%	98%
Funds generated from operations	94.5	79.5
Per unit	$ 2.69	$ 2.62
Distributable cash	87.4	72.8
Per unit	$ 2.49	$ 2.40
Net income before settlement of interest rate swap	58.7	46.0
Per unit	$ 1.67	$ 1.52
Net income	45.0	46.0
Per unit	$ 1.28	$ 1.52

OUR PROFILE

TransCanada Power, L.P. (the Partnership) is a Canadian limited partnership that offers investors solid cash flow and growth prospects. The Partnership's units trade under the symbol TPL.UN on The Toronto Stock Exchange. The Partnership owns seven power plants in Canada and the United States with total generating capacity of 328 megawatts. TransCanada PipeLines Limited (TransCanada) manages the Partnership and the power plants' operations and owns 35.6 per cent of the Partnership.

Funds Generated From Operations
(millions of dollars)

Distributable Cash
(dollars per unit)

Power Generated
(GWh)

Average Plant Availability

*From inception on June 18, 1997.

Our approach to growing the Partnership is straightforward – growth while managing risk. We are focused on maximizing opportunities through acquisition of:

- Quality power plants with existing long-term contracts providing stable cash flows;
- Power projects developed by TransCanada;
- Other power funds with quality assets.

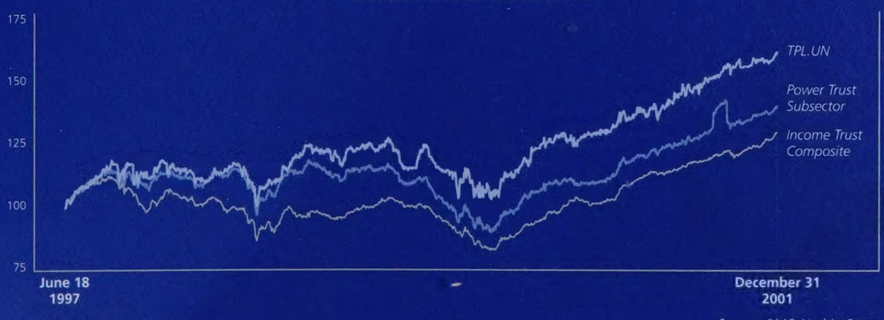
With strong anticipated growth in power demand in North America, the continued trend toward deregulation, and our ability to leverage the competitive strengths offered by TransCanada, the Partnership is well positioned to take advantage of opportunities for sustainable, disciplined growth.

Over the past five years, TransCanada Power, L.P. has outperformed The Toronto Stock Exchange's Power Trust Subsector and Income Trust Composite indices.

WHY *invest* IN TRANSCANADA POWER, L.P.

Our Mission is to be Canada's premier income fund, providing a growing, stable cash distribution to our unitholders. We will accomplish this by being growth-oriented while providing our unitholders with reliable long-term cash flows. We will apply superior operating and commercial management practices to a quality portfolio of energy assets.

Cumulative Total Return Index
(Since inception of TPL.UN on June 18, 1997)



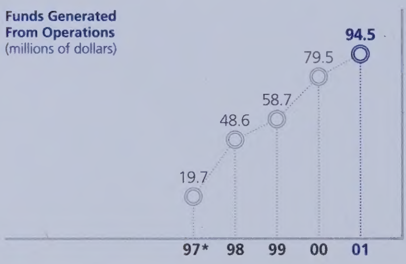
Source: BMO Nesbitt Burns

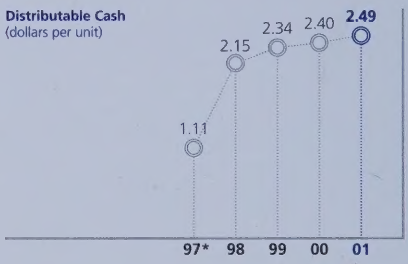
WHY INVEST IN TRANSCANADA POWER, L.P.

PROVEN GROWTH

Upon inception in mid-1997, TransCanada Power, L.P. owned three plants, with a total capacity of 118 megawatts. The Partnership has averaged one acquisition per year since then and now has seven plants, with a total capacity of 328 megawatts. With a market capitalization exceeding $1.2 billion at December 31, 2001, TransCanada Power, L.P. is the largest power income fund in Canada.

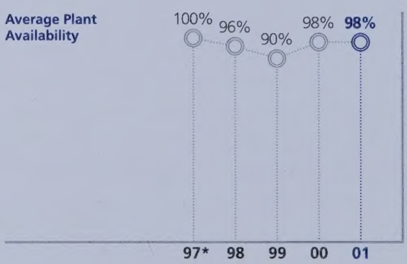
In 1997, the Partnership paid an annualized distribution of $2.08 per unit. In each subsequent year, TransCanada Power, L.P. has increased the annual per unit distribution to unitholders. In June 2001, the Partnership increased its annualized distribution to $2.52 per unit – an increase of 21 per cent since inception.





SUPERIOR QUALITY PLANTS

In the power business, plant quality can be measured by plant availability, being the percentage of time that a plant is capable of operating at full capacity. In 2001, the Partnership's seven plants operated at an average availability of 98 per cent, and the portfolio has averaged more than 96 per cent availability over the last five years. In addition, the Partnership's Ontario gas-fired plants have a high efficiency rating as a result of their unique design, which allows generation of incremental power from the waste heat of TransCanada's adjacent compressor stations.



SUPERIOR MANAGEMENT AND STRONG SPONSORSHIP

TransCanada owns 35.6 per cent of the Partnership's outstanding units and provides all operating and management services. As such, the Partnership is able to take advantage of TransCanada's core competencies:

- One of the largest operators of natural gas-fired turbines in North America
- Superior operating and management team
- Expertise in managing commodity price risk and other market risks
- Skilled marketer of electricity and natural gas
- Superior skills in identifying, assessing, and structuring acquisition opportunities and financing strategies
- Committed to growing its own power business along with the Partnership

*From inception on June 18, 1997.

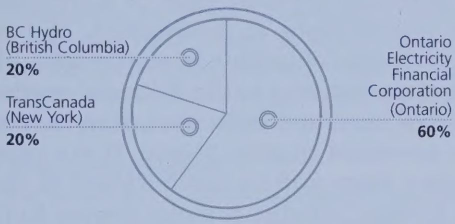
WHY INVEST IN TRANSCANADA POWER, L.P.

RISK DIVERSIFICATION

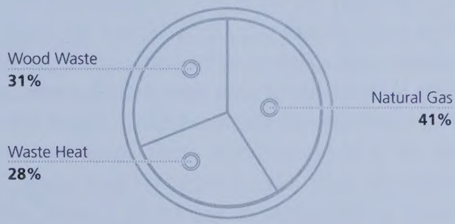
Diversification of risk is an investment consideration that cannot be over emphasized. Standard & Poor's continues to recognize the Partnership's low-risk profile through its SR-1 stability rating, its highest rating. The Partnership has consistently had one of the lowest yields in the power trust subsector over the past five years. TransCanada Power, L.P. has diversified its operating and financial risks in the following ways:

- Long-term sales contracts, with remaining average terms approximating 15 years
- Long-term fuel and operating contracts, with terms generally matching the sales contracts
- Seven plants with multiple fuel sources
- Sales to three A-grade power buyers in three different geographic markets
- Excellent operating history

Per Cent of Capacity by Counterparty



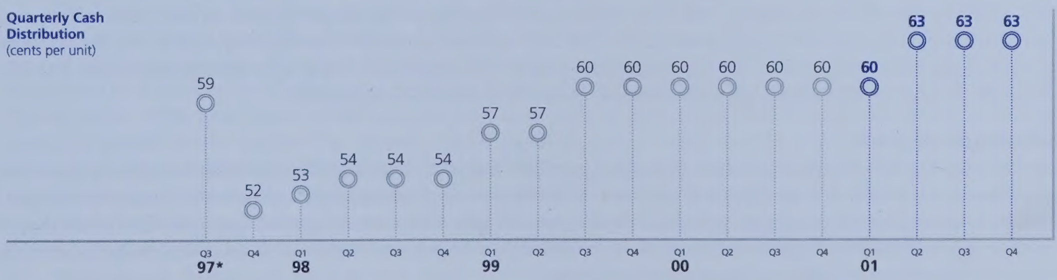
Per Cent of Output by Fuel Source



PROVEN STABILITY AND GROWTH IN DISTRIBUTIONS

The Partnership is committed to increasing quarterly distributions on a sustainable basis. In each of the 18 consecutive quarters since inception in 1997, TransCanada Power, L.P. has met or exceeded the distribution level of the preceding quarter – a record that few other income funds can match.

Quarterly Cash Distribution (cents per unit)



STRONG TAX DEFERRAL BENEFITS

The Partnership's Canadian cogeneration plants are eligible for an accelerated capital cost allowance for income tax purposes. Since inception, TransCanada Power, L.P. has been able to defer income tax on most of the per unit distributions that would have otherwise been taxed in the hands of the unitholders. The Partnership was able to defer income tax on 67 per cent of the cash distributed to unitholders in 2001, and has averaged an 86 per cent deferral rate since 1997. Maintaining or increasing the non-taxable portion of annual cash distributions is a key criteria in assessing new acquisition opportunities.

*From inception on June 18, 1997.

LETTER TO LIMITED PARTNERS

2001 Annual Report

TransCanada Power, L.P. is pleased to report that 2001 was another year of significantly increased operating cash flows as well as increased distributions to unitholders. In a year marked with great economic and political turmoil, extreme volatility in continental electricity and natural gas commodity prices and a general uncertainty in the financial markets, we are proud of the fact that the Partnership provided investors with the safety and security of a dependable cash distribution, backed by premium quality assets. These assets, combined with the Partnership's superior management team and its commitment to operational excellence, have built TransCanada Power, L.P. into Canada's premier power fund.

DISTRIBUTION GROWTH AND STABILITY

The Partnership's greatest success in 2001 was its ability to once again raise the quarterly distribution to its unitholders. The 12 cent per unit or five per cent annualized increase in the second quarter of 2001 was the fifth increase in the Partnership's quarterly distribution since its inception, and represents an increase of more than 21 per cent compared to the initial 1997 levels. Our record of meeting or exceeding the previous quarter's distribution level since inception is one that few other income funds can match. When the Partnership announced the latest increase in June 2001, we also reiterated a commitment that we have made previously – we will increase quarterly distributions only if the Partnership can sustain that higher distribution level for the foreseeable future. This approach, along with strong operations, has allowed TransCanada Power, L.P. to deliver cash distributions upon which unitholders can rely.

OPERATIONAL EXCELLENCE

As one of North America's largest operators of natural gas-fired turbines, TransCanada continues to apply its expertise and its commitment to operational excellence as operator of the Partnership's power plants. As a result, the Partnership is able to maximize output from these plants, minimize downtime and take advantage of market opportunities when they arise. The Partnership is pleased to report an average plant availability of 98 per cent across all seven plants in 2001, bringing the five-year average plant availability to more than 96 per cent.

PREMIER POWER FUND

With its seven existing plants, a total generating capacity of 328 megawatts and a market capitalization exceeding $1.2 billion, the Partnership is the largest power income fund in Canada. We understand that unitholders are interested in receiving a strong return on their investment while minimizing the inherent risk. We believe that TransCanada Power, L.P. provides the right balance between risk and return.

In the income fund sector, risk is reflected by yield, which is defined as the ratio of a fund's per-unit distribution versus its market price. While a fund may vary its distribution levels, market forces will generally adjust the unit price to reflect a yield consistent with the risk inherent in investing in that fund. While a higher yield may at first seem attractive, a lower yield generally indicates a less risky and safer investment. For the last five years, TransCanada Power, L.P. has consistently maintained one of the lowest yields in the power fund sector. This reflects the Partnership's proven success in minimizing its operating risks through the ownership of multiple plants, which are extremely well operated and maintained, are located in different geographic markets, and are backed by secure, long-term contracts. This low-risk profile has consistently been recognized by Standard & Poor's SR-1 stability rating, its highest rating.

Risk is only half of the equation – unitholders also demand a strong return on their investment. We are proud of the fact that an investment in TransCanada Power, L.P. has provided a total unitholder return, representing the combined benefits of distributions and unit price appreciation, of 25 per cent for 2001. This compares favourably with the TSE 300's total return of -13 per cent in 2001. An investment in TransCanada Power, L.P. at its inception in mid-1997 has returned a total of approximately 60 per cent to its unitholders. With the combined impacts of a low yield and a high return to unitholders, TransCanada Power, L.P. has earned its reputation as one of Canada's leading income funds.

SPONSORSHIP

One of the key advantages that TransCanada Power, L.P. utilizes to maximize both its current and its future value is the sponsorship that it receives from TransCanada. As a significant unitholder and the operator of the Partnership's plants, TransCanada offers a number of unique benefits to the Partnership. Through the very strong management team supporting the Partnership, TransCanada uses its expertise in fuel and risk management and its market intelligence in both electricity and natural gas, combined with its own strong presence in the power business, to capitalize on market opportunities as they occur.

TransCanada is also a key resource to the successful growth of the Partnership, as it identifies new acquisition opportunities and utilizes proven financial expertise to apply business models that support the Partnership's strong balance sheet. As well, TransCanada plays an instrumental role in structuring new acquisitions that will maintain the low-risk, sustainable value of the Partnership, while ensuring that new acquisitions are accretive on a per-unit basis to all unitholders. TransCanada has consistently stated both that it has a strong focus on growing its power business and that the continued growth of TransCanada Power, L.P. is a key part of its current and future success in this area.

ACQUISITIONS GROWTH

The Partnership follows a disciplined approach with respect to the acquisition of new plants, and will not acquire new plants simply for the sake of growth. All acquisitions must be consistent with the Partnership's low-risk profile and must increase per-unit distributions on a long-term, sustainable basis. The Partnership did not make any acquisitions in 2001, as the actual prices paid for suitable plants were thought to be excessive.

The Partnership now believes that this over-heated acquisition environment is reversing, and 2002 is expected to present a number of attractive acquisition opportunities. In anticipation of this, the Partnership used the proceeds from a successful equity offering in October 2001, to repay all long-term debt in the Partnership. As a result, TransCanada Power, L.P. is well positioned to take immediate advantage of acquisition opportunities as they arise.

The Partnership's disciplined approach and growth strategy will not change in 2002 and beyond. The Partnership will continue to take advantage of changes resulting from the ongoing deregulation in the power industry and target opportunities that meet the criteria set out above. Potential growth opportunities are likely to present themselves in a number of different areas. First, the Partnership will examine the power plants currently owned by TransCanada. With new plants under construction and more in operation, TransCanada represents a natural source of growth for the Partnership. Second, TransCanada Power, L.P. will continue to focus on new acquisitions in Canada and the northern tier of the United States. Third, depending on market conditions, there may be opportunities to acquire other power funds where TransCanada Power, L.P. can apply its low yield and strength in operations, marketing and management to create additional value. Finally, management will continue to focus on the organic growth of its existing assets by searching for further cost savings, operating efficiencies and expansions.

TransCanada Power, L.P. has a proven track record over the last five years of delivering strong returns to unitholders through growth in operations and increasing distributions, while minimizing investment risks. With its strong balance sheet and superior assets, backed by a focused and disciplined management team, I firmly believe that TransCanada Power, L.P. is well positioned to continue as Canada's premier power fund.

On behalf of the General Partner,

ALEXANDER J. POURBAIX
President
TransCanada Power Services Ltd.

OPERATIONS

POWER PLANT STATISTICS

	1 WILLIAMS LAKE	2 NIPIGON	3 CALSTOCK	4 KAPUSKASING	5 TUNIS	6 NORTH BAY	7 CASTLETON
NOMINAL GENERATING RATING	66 megawatts	40 megawatts	35 megawatts	40 megawatts	43 megawatts	40 megawatts	64 megawatts
LOCATION	Located on a 31-acre site, in Williams Lake, British Columbia	Located on a 7-acre site near Nipigon, Ontario	Located on a 55-acre site near Hearst, Ontario	Located on a 14-acre site in Kapuskasing, Ontario	Located on an 11-acre site near Iroquois Falls, Ontario	Located on a 16-acre site near North Bay, Ontario	Located on a 2.75-acre lease in Castleton-on-Hudson, New York
MAJOR EQUIPMENT	1 wood waste boiler 66 MW steam turbine	22 MW gas turbine 18 MW steam turbine 3 HRSGs*	1 wood waste boiler 35 MW steam turbine 2 HRSGs*	25 MW gas turbine 31 MW steam turbine 3 HRSGs*	41 MW gas turbine 19 MW steam turbine 3 HRSGs*	25 MW gas turbine 31 MW steam turbine 2 HRSGs*	40 MW gas turbine 25 MW steam turbine 1 HRSG*
PARTNERSHIP ACQUISITION	October 1999	June 1997	September 1998	June 1997	March 1998	June 1997	July 1999
COMMERCIAL OPERATIONS	April 1993	May 1992	October 2000	March 1997	January 1995	March 1997	March 1992
POWER SALES CONTRACT	25-year term expiring in April 2018	20-year term expiring in June 2012	20-year term expiring in June 2020	20-year term expiring in June 2017	20-year term expiring in January 2015	20-year term expiring in June 2017	9-year term expiring in June 2008
FUEL PURCHASE CONTRACT	Wood waste supply agreements with local mills for 25 years. Cost recovery mechanism in power sales contract	Gas supply agreements for 21-year terms expiring in 2010 and 2012	Wood waste supply agreements with 3 mills for 20-year terms and 1 mill for a 12-year term	Gas supply agreement with 20-year term expiring in November 2016	Gas supply agreements with 15-year term expiring in 2010	Gas supply agreement with 20-year term expiring in November 2016	No fuel risk. Partnership pays a fixed demand charge under management agreement

*A HRSG is a heat recovery steam generator.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis should be read in conjunction with the audited Consolidated Financial Statements of TransCanada Power, L.P. (the Partnership) and the notes thereto for the year ended December 31, 2001.

HIGHLIGHTS OF 2001

- **Growth in Distributions to $2.52 per unit (annualized) – 5 per cent increase over 2000 levels; 21 per cent over 1997 levels.**
- **Captured Market Opportunities - $2.4 million or $0.07 per unit of incremental cash flow from enhancement transactions in 2001.**
- **Operational Excellence – 98 per cent availability in 2001; 96 per cent average availability since inception.**
- **Financial Positioning for Further Growth – realized $165.9 million of net proceeds on issuance of new units and repaid all long-term debt in 2001.**

TransCanada Power, L.P. owns seven power plants: five in Ontario, one in British Columbia and one in New York State. These diversified operations spread operating risks across facilities in three different geographic regions. At December 31, 2001, the total generating capacity of the seven plants was 328 megawatts, which has increased from 118 megawatts at the Partnership's inception in mid-1997. The Partnership's strategic plan is to grow the asset base by expanding capacity at existing plants and to take advantage of acquisition opportunities that are accretive on a per-unit basis.

TransCanada Power Services Ltd., the General Partner, a wholly-owned subsidiary of TransCanada PipeLines Limited and its affiliates (collectively, TransCanada), is responsible for overseeing the management of the Partnership and, through its Board of Directors, declaring the cash distributions to the Partnership's unitholders. The General Partner has engaged TransCanada Energy Ltd. (the Manager) and an affiliate, both wholly-owned subsidiaries of TransCanada, to perform management and administrative services on behalf of the Partnership and to operate and maintain the power plants pursuant to management and operations agreements. At December 31, 2001, TransCanada owned 35.6 per cent of the outstanding Partnership units.

All of the Partnership's power plants have long-term power sales contracts, with remaining terms ranging from seven to 19 years and an average remaining term of 15 years, as well as long-term fuel and operating contracts with terms generally matching those of the sales contracts. Output from the Ontario power plants is sold to Ontario Electricity Financial Corporation (OEFC) and output from the Williams Lake power plant is sold to British Columbia Hydro and Power Authority (BC Hydro). Output from the Castleton power plant is sold to an affiliate of TransCanada in return for fixed monthly payments. The use of long-term sales contracts to A-grade credit rated counterparties, combined with long-term fuel and operating contracts, reduces financial risk to unitholders and increases the security of long-term cash flows.

The Partnership's power plants use gas, waste heat and wood waste, or a combination of the three, to produce electricity. This diversity of fuel sources further minimizes commodity risk to the Partnership. The Ontario gas-fired plants use a process called enhanced combined cycle generation, which uses both gas and waste heat as fuel sources. These plants are located adjacent to the TransCanada Canadian Mainline gas compressor stations, which allows access to waste heat from the adjacent compressors. The Calstock and Williams Lake plants use wood waste from local mills as a source of fuel, thereby creating both environmental and economic benefits.

The Partnership generated funds from operations for the year ended December 31, 2001 of $94.5 million ($2.69 per unit), an increase of $15.0 million or 19 per cent from the $79.5 million ($2.62 per unit) for the same period in 2000. Net income

for the year ended December 31, 2001, was $45.0 million, $1.0 million lower than last year, and included a $13.7 million payment incurred by the Partnership to settle an interest rate swap transaction. Net income before the settlement of the interest rate swap was $58.7 million, or 28 per cent higher than 2000. On a per-unit basis, net income equates to $1.67 per unit in 2001 (excluding $0.39 per unit for the swap settlement payment), as compared to $1.52 per unit in 2000. The year-over-year increase is due to continued strong performance from all of the plants in 2001. Although most of the output at the Williams Lake plant is sold under firm contract, there was a significant increase in excess energy sales due to higher market-based contract prices for excess energy in 2001. As well, there was a significant increase in results from the Ontario plants due to a full year of operations for the Calstock plant in 2001, which was transferred to the Partnership in October 2000.

Year ended December 31 (millions of dollars, except per unit amounts)

	2001	2000
Funds generated from operations	94.5	79.5
Per unit	$ 2.69	$ 2.62
Distributable cash	87.4	72.8
Per unit	$ 2.49	$ 2.40
Net income before settlement of interest rate swap	58.7	46.0
Per unit	$ 1.67	$ 1.52
Net income	45.0	46.0
Per unit	$ 1.28	$ 1.52

REVENUES

Year ended December 31

	2001		2000	
	GWh	Millions of Dollars	GWh	Millions of Dollars
Power sales				
Ontario	1,492	106.7	1,386	97.0
Williams Lake	557	43.2	533	33.0
Castleton (capacity payments)	309	16.8	372	15.2
Enhancement revenues		9.5		8.7
		176.2		153.9
Average sales price per kWh				
Ontario		7.2¢		7.0¢
Williams Lake		7.8¢		6.2¢

Revenues of $176.2 million for 2001 were $22.3 million, or 14 per cent higher than the $153.9 million reported in 2000. The increase is primarily due to higher market-based prices on excess energy sales at the Williams Lake plant and a full year of operation for the Calstock plant.

Revenues for the Ontario plants of $106.7 million for 2001 were $9.7 million higher than the same period last year, primarily reflecting the addition of the Calstock plant in the fourth quarter of 2000. An increase to the Direct Customer Rate (DCR), a component in the pricing of the Ontario power sales and supply contracts, contributed to increased power sales revenues in 2001 at certain of the Partnership's gas-fired plants in Ontario. This increase in sales revenue, combined with higher average sale prices per kilowatt-hour (kWh), was partially offset by increased curtailment activities in 2001. Plant availability for the Ontario plants in 2001 was 97 per cent, down slightly from the previous year's level of 99 per cent. The minor decrease in availability was more than offset by the increase in enhancement revenues, as the Manager curtailed 153 gigawatt-hours (GWh) of off-peak output in 2001 to take advantage of high gas prices, compared to 123 GWh of curtailments in 2000.

Power output and revenues for 2001 were up significantly at Williams Lake due to increased excess energy sales at higher market-based contract prices. This was also reflected in the higher average price per kWh. Plant availability for the Williams Lake plant in 2001 was 98 per cent, compared to 95 per cent in 2000. As a result, plant output increased in 2001 to 557 GWh from 533 GWh in 2000, which contributed to the plant's improved results.

Revenues at the Castleton plant are earned through fixed monthly capacity payments from an affiliate of the Manager in return for providing the power plant's entire operating capacity, and are generally unaffected by the amount of electricity generated at the plant. The increase of $1.6 million over last year is due to scheduled increases in the capacity payments and a higher US dollar exchange rate in 2001.

Enhancement revenues reflect decisions by the Manager to voluntarily curtail off-peak power output at certain of the Ontario plants and re-sell the contracted natural gas fuel at market prices. This practice results in higher overall profits to the Partnership. Revenues generated from enhancement sales in 2001 were $9.5 million, slightly higher than the $8.7 million generated in 2000. These enhancement sales took place primarily in late 2000 and early 2001. Enhancement sales opportunities decreased in the latter half of 2001, due to lower market prices for natural gas during that period.

COST OF FUEL

Year ended December 31 (millions of dollars)

	2001	2000
Ontario		
Natural gas	32.8	30.6
Waste heat	0.6	0.7
Wood waste	0.6	0.1
	34.0	31.4
Williams Lake	3.1	2.0
Castleton	2.6	2.5
	39.7	35.9
Average fuel cost per kWh		
Ontario	2.3¢	2.3¢
Williams Lake	0.6¢	0.4¢

Fuel costs of $39.7 million, which include the fuel commodity price and transportation costs, for the year ended December 31, 2001 were $3.8 million higher than the $35.9 million in 2000. This represents an increase of 11 per cent, primarily due to contract increases in fuel costs, increased DCR which impacted pricing in certain gas supply contracts for the Ontario plants and increased wood transportation costs for the Williams Lake plant.

On a per kWh basis, the constant cost of fuel at the Ontario plants reflects the Partnership's use of long-term natural gas supply contracts. To further mitigate the Partnership's exposure to rising market prices with respect to the small amount of natural gas fuel requirements that are not under long-term contract, the Manager has at times reduced output during off-peak hours, when the per unit sales price of electricity to OEFC is lower. This flexibility is possible due to each plants' high availability and output during peak hours, while still meeting monthly output requirements for each plant.

The Williams Lake total and per unit cost for wood waste has increased as compared to 2000 due to the Partnership's requirement to transport wood fuel from greater distances to meet output levels in 2001. The reduced fuel availability is due to reduced production levels at the local contracted lumber mills, resulting from the imposition of softwood lumber import duties by the United States in 2001 and a general economic downturn in the lumber industry. Much of this increased wood transportation cost does not impact the Partnership's distributable cash, as the majority of the fuel costs related to firm energy production are recovered through cost recovery mechanisms in the sales contract with BC Hydro.

OPERATING AND MAINTENANCE EXPENSE

Year ended December 31 (millions of dollars)

	2001	2000
Ontario	11.8	9.1
Williams Lake	4.4	4.4
Castleton	3.5	3.4
	19.7	16.9
Percentage of revenue	11%	11%

Operating and maintenance expense is based on a fixed fee, adjusted annually for inflation, and is payable to the Manager or its affiliate for the operation of the plants and the management of the Partnership. Operating and maintenance expense of $19.7 million for the year ended December 31, 2001 increased by $2.8 million compared to the previous year, primarily due to the inclusion of a full year of operations from Calstock.

PLANT OPERATING COSTS

Year ended December 31 (millions of dollars)

	2001	2000
Property taxes	2.7	2.6
Insurance	1.4	1.0
Major maintenance	1.0	0.6
	5.1	4.2

Plant operating costs of $5.1 million for 2001 were $0.9 million higher than 2000. The increase reflects an industry-wide increase in insurance premiums in 2001 and higher major maintenance expenses at Williams Lake as a result of an increased maintenance program scope in 2001.

DEPRECIATION

Year ended December 31 (millions of dollars)

	2001	2000
Total	37.0	34.1

Depreciation expense of $37.0 million in 2001 increased $2.9 million from 2000 primarily due to a full year of depreciation on the Calstock plant.

MANAGEMENT AND ADMINISTRATION

Year ended December 31 (millions of dollars)

	2001	2000
Base fee	0.9	0.7
Incentive fee	1.2	0.5
Enhancement fee	1.3	1.4
Other costs	1.9	1.2
	5.3	3.8

Management and administration costs of $5.3 million for 2001 were $1.5 million higher than 2000. The increase is primarily due to higher incentive fees and business development costs in 2001. Incentive fees are paid to the Manager based on the level of cash distributions paid to unitholders, as compared to pre-determined thresholds. In 2001, cash distributions increased by $0.09 per unit and the number of units increased with the equity issue in the fourth quarter, resulting in a $0.7 million increase to incentive fees. Other costs in 2001 include $0.8 million of business development costs incurred for due diligence efforts on a potential acquisition that did not proceed.

INTEREST EXPENSE

Year ended December 31 (millions of dollars)

	2001	2000
Interest on long-term debt	9.3	12.7
Other	1.3	0.6
	10.6	13.3

Interest expense for the year ended December 31, 2001, was $2.7 million lower than 2000, due primarily to the full repayment of the Partnership's long-term debt in October 2001.

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

Distributable cash for the year ended December 31, 2001 was $87.4 million, representing an increase of $14.6 million, or 20 per cent, from $72.8 million for the same period in 2000. On an annual per unit basis, the Partnership distributed $2.49 per unit in 2001, compared to $2.40 per unit in 2000. The distributable cash of $87.4 million included funds from operations, levelization amounts from OEFC related to certain Ontario plants, scheduled debt reductions and a cash reserve of $6.0 million. The Partnership maintains a cash reserve to partially finance capital expenditures. The fourth quarter cash distribution was paid on January 30, 2002, to unitholders of record on December 31, 2001.

The Partnership distributes cash generated from the power operations on a quarterly basis, and to date these distributions have been treated primarily as returns of capital. The history of distributions to unitholders, along with their taxable component, is as follows:

Year ended December 31

	Cash Distribution per Unit	*Taxable Amount per Unit*
1997*	$ 1.11	$ 0.00
1998	$ 2.15	$ 0.09
1999	$ 2.34	$ 0.24
2000	$ 2.40	$ 0.54
2001	**$ 2.49**	**$ 0.83**

*From inception on June 18, 1997

In the second quarter of 2001, the Partnership increased quarterly cash distributions by $0.03 per unit, or $0.12 per unit on an annualized basis, compared to 2000 levels, reflecting continued strong performance from all of the Partnership's assets and the Board's belief that these results are sustainable in the future. This annualized distribution level of $2.52 per unit represents a five per cent increase over the 2000 level of $2.40 per unit and a 21 per cent increase over the Partnership's initial distribution levels in 1997.

Capital Expenditures

Capital expenditures of $11.6 million in 2001 primarily related to the purchase of a spare gas turbine for Kapuskasing and North Bay ($3.7 million) and the planned upgrade of the gas turbine at Castleton ($3.4 million). The spare turbine for Kapuskasing and North Bay is expected to reduce operating risks and increase plant availability during maintenance periods. The remainder of the capital expenditures was related to planned capital improvements at the Partnership's plants.

In 2002, $1.8 million in expenditures are planned for a scheduled overhaul of the gas turbine at Nipigon and $1.7 million in expenditures are planned to purchase spare parts for the upgraded gas turbine at Castleton. Other capital expenditures are planned for general plant improvements at each of the plants.

Financing Activities

The Partnership has a $50 million operating line of credit under commercial terms with TransCanada that is available to finance capital expenditures, including turbine overhauls and expansions to existing plants. The line of credit bears interest at prime or, at the option of the Partnership, may be fixed at a rate of one per cent over TransCanada's equivalent term cost of funds. The balance outstanding at December 31, 2001, was $15.9 million.

At December 31, 2001, the Partnership's debt to total capitalization ratio was less than three per cent, compared to approximately 25 per cent at the end of 2000. The full repayment of the Partnership's long-term debt in the fourth quarter of 2001 further improved financial flexibility and positioned the Partnership for future growth and acquisition opportunities. In addition, the Partnership has maintained the highest Standard & Poor's stability rating for income funds of SR-1.

On October 23, 2001, the Partnership issued 5,660,000 units at $30.90 per unit through a syndicate of underwriters. The $165.9 million of net proceeds were used to repay the Partnership's long-term indebtedness and to terminate interest rate swap transactions related to the financing of the Williams Lake plant. These actions strengthened the Partnership's balance sheet by providing even more financial flexibility for future acquisitions and increasing future cash flows by reducing debt service costs.

OUTLOOK

The Partnership is committed to providing unitholders with growing and stable cash distributions in 2002 and beyond. This will be accomplished by continuing to strive for operational excellence at the existing plants, capitalizing on further marketing enhancements where possible as well as growing the Partnership through plant expansions and acquisitions of new assets. With the repayment of its entire long-term debt in 2001, TransCanada Power, L.P. is well positioned to take advantage of acquisition opportunities as they arise in 2002 and beyond. The Partnership will focus its disciplined acquisition strategy on the Canadian and northern tier United States markets, targeting the acquisition of additional TransCanada plants, acquisition of third party facilities and, depending on market conditions, the acquisition of other power funds.

Business Risks

The Partnership's use of long-term sales, fuel and operating contracts and the quality of its assets, combined with an excellent maintenance program minimize operational risk and exposures to commodity price fluctuations. The most significant risks to the Partnership are those associated with the performance of the plants, such as plant availability, major maintenance costs and the potential impact on existing contracts as a result of deregulation of electricity markets.

Plant personnel have developed procedures to minimize the downtime required for both scheduled and non-scheduled maintenance. Strict safety standards are in place and, in many cases, surpass those required by government regulation. In addition, the Partnership has adequate insurance to cover equipment breakage and business interruption.

The risks associated with the uncertainty of the competitive marketplace, especially the volatility in market prices for electricity, have been minimized by the long-term power sales contracts in place with OEFC, BC Hydro and TransCanada. The Ontario government has announced the opening of the retail electricity market in the province and this is scheduled to be implemented in May 2002. The Manager is engaged in discussions with OEFC regarding certain administrative changes required to the Partnership's Ontario power purchase agreements in order that these agreements will transition smoothly into the opened marketplace. Management expects no material change in the value of its agreements with OEFC as a result of the market opening. As part of this process, the Partnership has recently filed an application with the Independent Electricity Market Operator (IMO) seeking waiver of certain of the forthcoming market rules and procedures that will ease the transition issues facing the Partnership. Discussions with the IMO are proceeding and are expected to be completed in 2002.

British Columbia has not initiated a process to deregulate the electricity industry in that province, therefore similar risks do not currently exist with respect to the contract at Williams Lake. Although the power sales contract with BC Hydro allows for sales of excess energy at market-based prices, these sales are at the discretion of the Partnership and therefore present little risk of loss to the Partnership resulting from market price volatility.

Other risks include, but are not limited to, the following:

- Contractual risks associated with counterparty default under the Partnership's power sales contracts and fuel supply agreements;
- Changes in legislation regarding environmental and safety issues; and
- Financial risk relating to borrowing rates and the ability to obtain additional equity and debt financing for projects.

To minimize all of these risks, the Partnership has procedures in place which utilize the expertise of staff at the plants and the management of the Partnership's operations.

Another risk for the Partnership is potential conflict of interest between the Partnership and TransCanada. Management and the Board of Directors have procedures in place to ensure that any conflict between the Partnership and TransCanada is appropriately resolved. This includes the requirement for approval, by a majority of independent board members, of material transactions between the Partnership and TransCanada.

In 2001, the U.S. government imposed duties on the Canadian softwood lumber industry totaling 31.9 per cent. The Canadian government is appealing these duties and bilateral negotiations are underway. These duties impacted the availability of wood waste for the Williams Lake and Calstock plants. The Partnership is monitoring developments in this dispute and expects that an acceptable resolution will be reached. To ensure ongoing plant operations, the Partnership has secured additional sources of wood waste and therefore does not expect overall output from these plants to be affected throughout 2002.

Sensitivity of Cash Flows

The cash flows from operations are generally protected from variations in revenues and costs by the Partnership's long-term contracts. Variations in cash flows can occur, however, when the plants are not operating at capacity as a result of increased maintenance time, equipment failures, or the lack of available wood waste or waste heat from compressor stations. In addition, prices for the Williams Lake excess energy sales are market-based and, therefore are subject to annual adjustment.

Under the Ontario power purchase agreements, if minimum amounts of power are not provided on a monthly basis, a reduction in the payment from the power purchaser will occur. The risk of significant impact on cash flows is mitigated through the diversification of cash flow sources as a result of having a number of plants, each of which operates under separate agreements.

Periodic price changes within the long-term fuel contracts held by the Partnership could also cause a decrease in cash available to distribute. The Partnership has minimized this risk by diversifying fuel sources and matching gas fuel supply contract increases to revenue increases over the life of the power purchase and fuel supply contracts.

The Partnership is protected from significant fuel cost increases at Williams Lake through cost recovery mechanisms in the sales contract with BC Hydro.

QUARTERLY INFORMATION

The Partnership's quarterly information is set out in the Supplemental Information section on page 24 of the annual report under the heading Selected Quarterly Financial Data.

FORWARD-LOOKING INFORMATION

Certain information in this Management's Discussion and Analysis is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of the Partnership to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, competitive factors in the power industry, and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by the Partnership with Canadian securities regulators. The Partnership disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

REPORT OF MANAGEMENT

2001 Annual Report

The consolidated financial statements included in the Annual Report are the responsibility of the Management of the General Partner and have been approved by its Board of Directors. These consolidated financial statements have been prepared by the Management of the General Partner in accordance with Canadian generally accepted accounting principles (GAAP) and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management of the General Partner has prepared Management's Discussion and Analysis, which is based on the Partnership's financial information prepared in accordance with GAAP. It compares the Partnership's financial performance in 2001 to 2000, and should be read in conjunction with the consolidated financial statements and accompanying notes.

Management of the General Partner has developed and maintains a system of internal controls and believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements.

The General Partner's Board of Directors has appointed an Audit Committee, which meets periodically during the year with Management of the General Partner and the Partnership's external auditors independently and as a group. The Audit Committee reviews the consolidated financial statements with the Management of the General Partner and the Partnership's external auditors before the consolidated financial statements are submitted to the General Partner's Board of Directors for approval. The external auditors have free access to the General Partner's Audit Committee without obtaining approval from Management of the General Partner.

The independent external auditors, KPMG LLP, have been appointed by the General Partner's Board of Directors to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Partnership's financial position, results of operations and cash flows in accordance with GAAP. The following report of KPMG LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

ALEXANDER J. POURBAIX
President

RUSSELL K. GIRLING
Chief Financial Officer

February 21, 2002

AUDITORS' REPORT

2001 Annual Report

TO THE PARTNERS

We have audited the consolidated balance sheets of TransCanada Power, L.P. as at December 31, 2001 and 2000 and the consolidated statements of income, distributable cash, cash flows and partners' equity for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Management of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the General Partner's Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

February 21, 2002

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME

Year ended December 31 (millions of dollars, except per unit amounts)

	2001	2000
Revenues	176.2	153.9
Cost of Fuel	39.7	35.9
Operating and Maintenance Expense	19.7	16.9
Other Costs		
Plant operating	5.1	4.2
Depreciation	37.0	34.1
Management and administration	5.3	3.8
Interest expense	10.6	13.3
Settlement of interest rate swap	13.7	–
	71.7	55.4
Net Income Before Income Tax	45.1	45.7
Income Tax	0.1	(0.3)
Net Income	45.0	46.0
Net Income Per Unit	$ 1.28	$ 1.52

CONSOLIDATED DISTRIBUTABLE CASH

Year ended December 31 (millions of dollars, except per unit amounts)

	2001	2000
Net Income	45.0	46.0
Add/(Deduct):		
Depreciation	37.0	34.1
Settlement of interest rate swap	13.7	–
Future income tax	(1.2)	(0.6)
Levelization amounts	2.8	2.3
Scheduled reduction of long-term debt	(3.9)	(3.6)
Cash reserve	(6.0)	(5.4)
Distributable Cash	87.4	72.8
Distributable Cash Per Unit	$ 2.49	$ 2.40

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED CASH FLOWS

Year ended December 31 (millions of dollars)

	2001	2000
Cash Generated From Operations		
Net income	45.0	46.0
Add/(Deduct):		
Depreciation	37.0	34.1
Settlement of interest rate swap	13.7	–
Future income tax	(1.2)	(0.6)
Funds generated from operations	94.5	79.5
Increase in operating working capital	(9.2)	(9.9)
Net cash provided by operating activities	85.3	69.6
Investing Activities		
Capital expenditures	(11.6)	(6.8)
Net cash used in investing activities	(11.6)	(6.8)
Financing Activities		
Limited partner units issued	165.9	–
Reduction of long-term debt	(159.4)	(3.6)
Distributions paid	(82.8)	(70.1)
Settlement of interest rate swap	(13.7)	–
Increase/(decrease) of operating line	11.9	(4.0)
Levelization amounts	2.8	2.3
Net cash used in financing activities	(75.3)	(75.4)
Decrease in Cash and Short-Term Investments	(1.6)	(12.6)
Cash and Short-Term Investments, Beginning of Year	6.0	18.6
Cash and Short-Term Investments, End of Year	4.4	6.0

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

December 31 (millions of dollars)

	2001	2000
ASSETS		
Current Assets		
Cash and short-term investments	4.4	6.0
Accounts receivable	29.9	23.7
Prepaids and other	1.3	1.9
Inventories	6.5	6.4
	42.1	38.0
Capital Assets *(Note 3)*	633.2	658.6
Future Income Taxes	2.0	0.8
	677.3	697.4
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Accounts payable	8.7	12.2
Distributions payable	24.8	20.2
Operating line *(Note 6)*	15.9	4.0
Long-term debt due within one year	–	5.3
	49.4	41.7
Levelization Amounts	10.8	8.0
Long-Term Debt *(Note 5)*	–	154.1
Partners' Equity *(Note 4)*	617.1	493.6
	677.3	697.4

CONSOLIDATED PARTNERS' EQUITY

Year ended December 31 (millions of dollars)

	2001	2000
Balance, Beginning of Year	493.6	490.4
Net Income	45.0	46.0
Limited Partner Units Issued	165.9	30.0
Cash Distributions	(87.4)	(72.8)
Balance, End of Year	617.1	493.6

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Approved by TransCanada Power Services Ltd., as General Partner of TransCanada Power, L.P.

ALEXANDER J. POURBAIX
Director

BRIAN A. FELESKY
Director

NOTE 1 – BUSINESS OF THE PARTNERSHIP

TransCanada Power, L.P. (the Partnership) is a limited partnership created under the laws of the Province of Ontario pursuant to a Partnership Agreement dated March 27, 1997, as amended and restated June 6, 1997, and September 29, 1998. The Partnership commenced operations on June 18, 1997 and currently has independent power generating facilities in Ontario, British Columbia and New York State.

TransCanada Power Services Ltd., the General Partner, is a wholly owned subsidiary of TransCanada PipeLines Limited and its affiliates (collectively, TransCanada) and has the responsibility for overseeing the management of the Partnership and the cash distributions to the Partnership's unitholders. The General Partner has engaged TransCanada Energy Ltd. (the Manager) and an affiliate, both wholly owned subsidiaries of TransCanada, to perform management and administrative services on behalf of the Partnership and to operate and maintain the power plants pursuant to management and operations agreements. Electricity generated at the facilities is sold under long-term contracts to three customers, Ontario Electricity Financial Corporation (OEFC), British Columbia Hydro and Power Authority (BC Hydro) and TransCanada.

At December 31, 2001, TransCanada held 35.6 per cent of the outstanding limited partnership units.

NOTE 2 – ACCOUNTING POLICIES

The consolidated financial statements of the Partnership have been prepared by the management of the General Partner in accordance with Canadian generally accepted accounting principles. Since a determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made with careful judgement. In the opinion of management of the General Partner, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. Certain comparative figures have been reclassified to conform to the current year's presentation.

BASIS OF PRESENTATION

The consolidated financial statements of the Partnership include the accounts of its subsidiaries. Intercompany transactions and balances have been eliminated.

FOREIGN CURRENCY TRANSLATION

The Partnership indirectly owns a United States subsidiary, which is translated using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historic exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of income.

CASH AND SHORT-TERM INVESTMENTS

The Partnership's short-term investments with maturities of three months or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

INVENTORIES

Inventories of spare and replacement parts are carried at the lower of average cost or net realizable value.

CAPITAL ASSETS

Capital assets are carried at cost. Power generation plant and equipment, less estimated residual value, is depreciated on a straight-line basis at an average annual rate of approximately five per cent. Other equipment, which includes the costs of major overhauls, is capitalized and depreciated over estimated service lives of three to ten years.

REVENUE RECOGNITION

Revenue is recorded as earned under various long-term contracts and agreements.

Under the terms of the power purchase agreements for the Kapuskasing, North Bay and Calstock power plants, additional cash is received as levelization amounts and subsequently repaid. These receipts are not recognized as income but are included in distributable cash. Levelization amounts recorded on the balance sheet include interest accrued at a rate which currently approximates 11.25 per cent per annum. Repayment of the levelization amounts will begin in 2003 for Kapuskasing and North Bay and in 2007 for Calstock.

PARTNERS' EQUITY

Costs incurred in connection with the issuance of limited partnership units are deducted from the proceeds received.

INCOME TAXES

Under the Income Tax Act (Canada), a partnership does not pay tax, rather income taxes in respect of partnership income taxes are the responsibility of the individual partners rather than the partnership and therefore have not been recorded in the consolidated financial statements.

The provision for income taxes relates solely to the taxes of the Partnership's corporate subsidiaries. Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets or liabilities are calculated using enacted or substantively enacted tax rates expected to apply in the period during which the temporary differences are expected to reverse.

DISTRIBUTABLE CASH

The amount of distributable cash to be distributed quarterly is based on the Partnership's funds generated from operations plus levelization amounts, less scheduled debt repayments and any cash reserve which the Board of Directors of the General Partner in its discretion determines is necessary to satisfy the Partnership's current and anticipated obligations or to normalize quarterly distributions of cash to unitholders.

NET INCOME AND DISTRIBUTABLE CASH PER UNIT

Net income and distributable cash per unit are calculated by dividing net income and distributable cash, respectively, by the weighted average number of units outstanding, including those held, directly or indirectly, by TransCanada. For purposes of the weighted average number of units calculation, units are determined to be outstanding from the date when they are eligible for cash distributions and allocation of taxable income.

NOTE 3 – CAPITAL ASSETS

December 31 (millions of dollars)

	2001			2000
	Cost	*Accumulated Depreciation*	*Net Book Value*	*Net Book Value*
Land	3.1	–	3.1	3.1
Power generation plant and equipment	706.2	92.3	613.9	647.7
Other equipment	30.2	14.0	16.2	7.8
Capital assets	739.5	106.3	633.2	658.6

NOTE 4 – PARTNERS' EQUITY

December 31 (millions of dollars)

	2001	2000
Partners' capital	728.7	562.8
Accumulated income	178.0	133.0
Accumulated distributions	(289.6)	(202.2)
	617.1	493.6

PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of units. Each unit represents an equal, undivided limited partnership interest in the Partnership and entitles the holder to participate equally in distributable cash and net income, except as noted below. Units are not subject to future calls or assessments and entitle the holder to limited liability. Each unit is transferable, subject to the requirements referred to in the Partnership Agreement.

At June 30, 2017, all units outstanding, not held directly or indirectly by TransCanada, will be redeemed by TransCanada at their then fair market value, being the average of the fair market values assigned thereto by independent valuators, plus all declared and unpaid distributions of distributable cash thereon (the Redemption Price). The Redemption Price will be paid in cash or, at the election of TransCanada, in common shares of TransCanada or a combination of cash and common shares.

	Number of Units	*Millions of Dollars*
Outstanding at January 1, 2000	33,651,982	532.8
Removal of voting restriction	–	30.0
Outstanding at December 31, 2000	33,651,982	562.8
Units issued through public offering	5,660,000	165.9
Outstanding at December 31, 2001	39,311,982	728.7

On September 29, 1998, the Partnership issued 4,444,444 units to TransCanada at $27.00 per unit in exchange for the Calstock power plant, which was constructed for the Partnership by TransCanada. The units were held in escrow and did not participate in the cash distributions or allocation of Partnership income. The right to vote the units was obtained by TransCanada at certain milestone dates during construction of the plant. The units were removed from escrow and participated in cash distributions effective October 1, 2000, when the plant was completed and transferred to the Partnership. On this date, the final $30.0 million of equity was also recognized in Partners' Capital.

On October 23, 2001, the Partnership issued 5,660,000 units to the public at $30.90 per unit. The net proceeds of $165.9 million were used to repay the Partnership's long-term debt and to terminate related interest rate swap transactions.

The weighted average number of units outstanding in 2001 was 35.1 million (2000 – 30.3 million).

NOTE 5 – LONG-TERM DEBT

On October 18, 1999, a subsidiary of the Partnership entered into a $163.0 million term credit agreement with a syndicate of banks. The loan was drawn in the form of bankers' acceptances and LIBOR drawings at floating interest rates. The principal was repayable over 15 years in blended quarterly payments amortized on an 18-year mortgage schedule. The loan was secured by the assets of the Williams Lake power plant.

The Partnership was required under the term credit agreement to enter into a financial instrument in order to fix the interest rate on the debt until September 30, 2007. An interest rate swap with a notional value matching the principal of the loan fixed the effective interest rate at 7.51 per cent per annum until September 30, 2007. Interest expense of $9.3 million for the year ended December 31, 2001 (2000 – $12.7 million) was included in the income statement with respect to the term credit agreement. Under the term credit agreement, interest payments of $8.0 million were made during the year ended December 31, 2001 (2000 – $11.9 million).

On October 23, 2001, the Partnership used the net proceeds of $165.9 million from an equity issue and cash generated from internal sources of $3.2 million to fully repay the outstanding long-term debt ($155.4 million) and to terminate the interest rate swap transactions ($13.7 million).

NOTE 6 – RELATED PARTY TRANSACTIONS AND COMMITMENTS

POWER OPERATIONS

Power revenues for the Ontario power plants are determined based on a certain amount of electricity delivered under long-term contracts to OEFC. The 20-year term electricity sales contract prices are fixed with a built-in annual escalator that varies from zero to 4.4 per cent. Power revenues at the Williams Lake power plant are based on a firm amount of electricity delivered under a fixed rate 25-year term contract to BC Hydro. Deliveries above this firm amount are sold to BC Hydro at market-based rates.

The Partnership and an affiliate of the Manager have an agreement expiring in 2008 whereby the Partnership provides the operating capacity and power output of the Castleton power plant in return for a fixed monthly fee. Amounts received in 2001 under this agreement totaled $16.8 million (2000 – $15.2 million).

Fuel costs at the Williams Lake power plant and the Ontario power plants are also fixed under long-term contracts with built-in escalators. Fuel contracts include long-term agreements with the Manager to supply fuel for the North Bay and Kapuskasing plants and long-term agreements with TransCanada to supply gas transportation and waste heat for each of the Ontario facilities.

Amounts charged under the related party contracts were as follows:

Year ended December 31 (millions of dollars)

	2001	2000
Gas fuel supply contracts	20.3	15.0
Gas transportation contracts	12.4	8.7
Waste heat contracts	0.6	0.7

The Manager manages gas fuel supply on behalf of the Partnership, and fuel not required to operate the plants is sold on the open market through the Manager. In 2001, gas sales of $9.5 million included in revenue (2000 – $8.7 million) relate to enhancement transactions undertaken at the Nipigon, North Bay and Kapuskasing power plants to re-sell contracted natural gas fuel at high market prices, rather than produce off-peak power at lower rates. An additional $6.8 million (2000 – $6.5 million) of gas sales in 2001 relate to the sale of contracted fuel in excess of daily requirements to operate the plant, which had the effect of reducing the cost of fuel for power production.

The Partnership has incurred fees and expenses under the management and operations agreements with the Manager and its affiliate as follows:

Year ended December 31 (millions of dollars)

	2001	2000
Operating and maintenance expense	19.7	16.9
Gas demand charge	2.6	2.5
Management and administration		
Base fee	0.9	0.7
Incentive fee	1.2	0.5
Enhancement fee	1.3	1.4
Reimbursement of expenses	0.4	0.4
	3.8	3.0
	26.1	22.4

Included in accounts payable at December 31, 2001 are amounts owing to TransCanada of $1.6 million (2000 – $5.5 million).

OPERATING LINE

The Partnership has established a $50 million operating line of credit with TransCanada, available on a revolving basis, to fund fluctuations in working capital and to pay for plant maintenance and expansions. Outstanding balances on the line of credit bear interest at the prime rate or, at the option of the Partnership, may be fixed at a rate of one per cent over TransCanada's equivalent term cost of funds. As at December 31, 2001, the amount borrowed against this operating line was $15.9 million (2000 – $4.0 million) and interest paid during the year was $0.7 million (2000 – $0.4 million).

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 2001, the carrying value of the current financial assets and liabilities of the Partnership approximate the fair value due to their short period to maturity.

SUPPLEMENTAL INFORMATION

SELECTED QUARTERLY FINANCIAL DATA

Three months ended (unaudited)
(millions of dollars except per unit amounts)

	2001				2000			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue	48.4	39.6	39.6	48.6	45.2	32.7	33.9	42.1
Cost of Fuel	10.7	9.7	8.8	10.5	10.9	6.7	8.1	10.2
Operating and Maintenance	4.9	5.0	4.9	4.9	4.8	4.0	4.0	4.1
Other Costs								
Plant operating	1.5	0.9	1.7	1.0	0.9	1.3	1.0	1.0
Depreciation	9.3	9.3	9.2	9.2	9.3	8.3	8.3	8.2
Management and administration	2.0	1.2	0.8	1.3	2.1	0.8	0.4	0.5
Interest expense	0.7	3.3	3.4	3.2	3.3	3.3	3.4	3.3
Settlement of interest rate swap	13.7	–	–	–	–	–	–	–
	27.2	14.7	15.1	14.7	15.6	13.7	13.1	13.0
Net Income Before Income Tax	5.6	10.2	10.8	18.5	13.9	8.3	8.7	14.8
Income Tax	–	–	–	0.1	(0.2)	–	(0.1)	–
Net Income	5.6	10.2	10.8	18.4	14.1	8.3	8.8	14.8
Net Income Per Unit	$ 0.14	$ 0.30	$ 0.32	$ 0.55	$ 0.42	$ 0.29	$ 0.29	$ 0.51
Distributable Cash	24.8	21.2	21.2	20.2	20.2	17.6	17.5	17.5
Distributable Cash Per Unit	$ 0.63	$ 0.63	$ 0.63	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60

NET TRADING INFORMATION

Three months ended (unaudited)

	2001				2000			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Unit Price								
High	$ 31.85	$ 32.05	$ 31.24	$ 28.99	$ 28.70	$ 27.45	$ 26.50	$ 24.50
Low	$ 31.50	$ 30.40	$ 27.50	$ 27.00	$ 25.60	$ 25.50	$ 22.55	$ 20.00
Close	$ 31.75	$ 32.00	$ 29.70	$ 27.70	$ 27.50	$ 26.00	$ 26.50	$ 23.50
Volume Traded (millions)	0.7	1.7	1.4	1.0	0.8	1.2	1.2	1.0

PARTNERSHIP GOVERNANCE

2001 Annual Report

The governance of the Partnership is the responsibility of the Board of Directors (the Board) of the General Partner and the rights, authority and limitations on the General Partner are described in the Limited Partnership Agreement (the Partnership Agreement). As set out in the Partnership Agreement, the Board is composed of seven directors, four of which are related to TransCanada with the remaining three members being independent and unrelated to TransCanada.

The Board has plenary power for all activities of the Partnership unless specifically delegated to committees of the Board or management. To fulfill its responsibilities with respect to the Partnership, the General Partner's Board has established three committees: audit, corporate governance and independent directors. The combined work of the Board and these committees fulfill the fiduciary responsibility of the Board to foster the long-term success of the Partnership and maximize the partners' value.

The Partnership Agreement provides that the Board can function separately from the Manager and management, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransCanada. The Board's governance structure has accommodated this requirement through the establishment of the independent directors committee, which approves all material transactions between the Partnership and TransCanada and any of TransCanada's affiliates or associates.

Both the Board and independent directors committee can approve the engagement of outside advisors. The engagement of advisors for the independent directors committee is limited to advisors required for matters within their mandated responsibility.

As a publicly traded entity, the Partnership is required to disclose on an annual basis its alignment with a set of governance guidelines adopted by The Toronto Stock Exchange to assist organizations in assessing accountability to stakeholders.

STATEMENT OF GOVERNANCE PRACTICES

GUIDELINE 1 BOARD SHOULD EXPLICITLY ASSUME RESPONSIBILITY FOR STEWARDSHIP OF THE CORPORATION

Does the Partnership Align? Yes

Description of Approach: The Board has responsibility for the overall stewardship of the Partnership, establishing the overall policies and standards of the Partnership in the operation of its businesses and reviewing and approving its strategic plans.

GUIDELINE 1A BOARD SHOULD SPECIFICALLY ASSUME RESPONSIBILITY FOR THE ADOPTION OF A STRATEGIC PLANNING PROCESS

Does the Partnership Align? Yes

Description of Approach: The Board has adopted a strategic planning process and meets during the year to review and approve management's strategic plan for the Partnership. Changes to the plan assumptions are considered when appropriate.

GUIDELINE 1B **BOARD SHOULD SPECIFICALLY ASSUME RESPONSIBILITY FOR THE IDENTIFICATION OF PRINCIPAL BUSINESS RISKS, AND IMPLEMENTATION OF RISK MANAGEMENT SYSTEMS**

Does the Partnership Align? Yes

Description of Approach: The strategic plan process adopted by the Board also includes the review of significant risks to the Partnership, and management ensures that the Board is kept informed of any changes to these risks on a timely basis.

The audit committee reviews the Partnership's financial risk policies and procedures and reports to the Board on these matters on a quarterly basis. The Board also receives and reviews reports from management on health, safety and environment on a regular basis.

GUIDELINE 1C **BOARD SHOULD SPECIFICALLY ASSUME RESPONSIBILITY FOR SUCCESSION PLANNING, INCLUDING APPOINTING, TRAINING AND MONITORING SENIOR MANAGEMENT**

Does the Partnership Align? Yes

Description of Approach: The Board believes that the management of the Partnership is key to its ongoing success. The corporate governance committee is tasked by the Board to review key policies and procedures around management succession, training, compensation and appointment, where applicable. Under the terms of the agreement with the Manager, the Manager is responsible to fill the required management positions.

GUIDELINE 1D **BOARD SHOULD SPECIFICALLY ASSUME RESPONSIBILITY FOR COMMUNICATIONS POLICY**

Does the Partnership Align? Yes

Description of Approach: The Board has put structures in place to ensure effective communications between the Partnership, its unitholders and the public. The Board, or the appropriate committee thereof, reviews the content of the Partnership's major communications to the investing public, including the quarterly and annual reports, and approves the annual information form and any prospectuses that may be issued. The disclosed information is released through mailings to unitholders, news wire services, the general media and the Partnership's home page on the internet.

GUIDELINE 1E **BOARD SHOULD SPECIFICALLY ASSUME RESPONSIBILITY FOR THE INTEGRITY OF INTERNAL CONTROL AND MANAGEMENT INFORMATION SYSTEMS**

Does the Partnership Align? Yes

Description of Approach: The Partnership's internal controls are monitored on a regular basis by the audit committee through management and the work of the external auditors.

GUIDELINE 2 **MAJORITY OF DIRECTORS SHOULD BE "UNRELATED" (INDEPENDENT FROM MANAGEMENT AND FREE FROM CONFLICTS OF INTEREST)**

Does the Partnership Align? No

Description of Approach: Under the terms of the Partnership Agreement, TransCanada has the right to nominate four of the seven directors, thus a majority of the directors are related to the principal unitholder. Under the terms of the agreement, all transactions with TransCanada must be recommended by the independent directors committee. The Board believes this is an appropriate policy for the Partnership.

GUIDELINE 3 **DISCLOSE FOR EACH DIRECTOR WHETHER HE OR SHE IS RELATED, AND HOW THAT CONCLUSION WAS REACHED AND THAT THE MAJORITY OF DIRECTORS ARE 'OUTSIDE' DIRECTORS.**

Does the Partnership Align? No

Description of Approach: The Board has a majority of related Directors, being Messrs. Kvisle, Girling, Pourbaix and Wishart, all of whom are senior officers of TransCanada.

GUIDELINE 4 **APPOINT A COMMITTEE OF OUTSIDE DIRECTORS RESPONSIBLE FOR APPOINTMENT OF NEW NOMINEES AND ONGOING ASSESSMENT OF DIRECTORS**

Does the Partnership Align? No

Description of Approach: The corporate governance committee is responsible for assessing new nominees to the Board as well as assessing the Board performance on an ongoing basis. The committee is chaired by Mr. Hobson, an independent director, and has a majority of independent directors. The Board believes that it is appropriate for TransCanada as the Manager of the Partnership to have a representative on this committee due to the responsibilities that have been given to the Manager through contractual arrangements.

GUIDELINE 5 **IMPLEMENT A COMMITTEE PROCESS FOR ASSESSING THE EFFECTIVENESS OF THE BOARD, ITS COMMITTEES AND THE CONTRIBUTION OF INDIVIDUAL DIRECTORS**

Does the Partnership Align? Yes

Description of Approach: The corporate governance committee is responsible for making an annual assessment of the overall performance of the Board and its individual members and to report its findings to the Board.

The corporate governance committee also makes recommendations relative to the composition of the various committees of the Board.

GUIDELINE 6 **PROVIDE ORIENTATION AND EDUCATION PROGRAMS FOR NEW RECRUITS TO THE BOARD**

Does the Partnership Align? Yes

Description of Approach: All directors are provided with an orientation binder that includes written information about the duties and obligations of directors and the business of the Partnership. An opportunity for meetings and discussions with senior management and other directors is also available. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.

GUIDELINE 7 **EXAMINE SIZE OF BOARD, WITH A VIEW TO IMPROVING EFFECTIVE DECISION-MAKING AND, IF APPROPRIATE, UNDERTAKE A PROGRAM TO REDUCE THE NUMBER OF DIRECTORS**

Does the Partnership Align? Yes

Description of Approach: The Partnership Agreement provides for no more than seven directors. The Board believes this is the minimum number required for the business of the Partnership.

GUIDELINE 8 **REVIEW ADEQUACY AND FORM OF COMPENSATION OF DIRECTORS TO ENSURE COMPENSATION REFLECTS RISKS AND RESPONSIBILITIES**

Does the Partnership Align? Yes

Description of Approach: The corporate governance committee reviews the compensation of the independent directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable companies. No director related to TransCanada receives compensation from the Partnership for services to the Board or committees.

GUIDELINE 9 **COMMITTEES SHOULD GENERALLY BE COMPOSED OF OUTSIDE DIRECTORS A MAJORITY OF WHICH ARE UNRELATED**

Does the Partnership Align? Yes

Description of Approach: The Board believes that, as a matter of policy, there should be a majority of unrelated directors on each of the committees and the committees should be chaired by independent directors. The corporate governance committee and audit committee each have one position held by a related director, reflecting the significant unitholdings of TransCanada.

GUIDELINE 10 **APPOINT A COMMITTEE RESPONSIBLE FOR DEVELOPING AN APPROACH TO CORPORATE GOVERNANCE ISSUES**

Does the Partnership Align? Yes

Description of Approach: The mandate of the corporate governance committee includes responsibility to undertake initiatives as are needed to ensure excellence in governance.

GUIDELINE 11 **DEFINE LIMITS TO MANAGEMENT'S RESPONSIBILITIES BY DEVELOPING POSITION DESCRIPTIONS FOR THE BOARD AND CEO AND APPROVING CORPORATE OBJECTIVES FOR THE CEO TO MEET**

Does the Partnership Align? Yes

Description of Approach: The Board has adopted its own terms of reference, which clarifies responsibilities and ensures effective communication between the Board and management. The corporate governance committee has also been tasked by the Board to review position descriptions for the president and senior officers of the General Partner. Under the contractual agreements with the Manager, the positions are the responsibility of the Manager.

GUIDELINE 12 **ESTABLISH PROCEDURES TO ENABLE THE BOARD TO FUNCTION INDEPENDENTLY OF MANAGEMENT**

Does the Partnership Align? Yes

Description of Approach: The Partnership Agreement provides that the Board can function separately from the Manager and management of the General Partner, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransCanada or any of its affiliates.

GUIDELINE 13 **ESTABLISH AN AUDIT COMMITTEE COMPOSED ONLY OF OUTSIDE DIRECTORS WITH SPECIFICALLY DEFINED ROLES AND RESPONSIBILITIES**

Does the Partnership Align? No

Description of Approach: The audit committee for the Partnership has defined roles and responsibilities as outlined in the mandate described in the previous section. The committee is comprised of a majority of outside directors, one of which is the committee chair, but does include a representative from TransCanada. This variance from the guidelines provides the audit committee with further financial expertise and TransCanada, as a significant unitholder, with representation on the audit committee. In the view of the Board, this is appropriate.

GUIDELINE 14 **IMPLEMENT A SYSTEM TO ENABLE INDIVIDUAL DIRECTORS TO ENGAGE OUTSIDE ADVISORS AT THE CORPORATION'S EXPENSE**

Does the Partnership Align? Yes

Description of Approach: Independent directors have the authority to retain consultants for themselves or the independent directors committee where necessary and appropriate.

BOARD OF DIRECTORS

[1*,3] **Brian A. Felesky,** Q.C.
Partner, Felesky Flynn
Calgary, Alberta

[1] **Russell K. Girling**
Executive Vice-President and Chief Financial Officer
TransCanada PipeLines Limited
Calgary, Alberta

[1,2*,3] **Eric Hobson**
Partner, Northridge Canada
Calgary, Alberta

[2] **Harold N. Kvisle**
President and Chief Executive Officer
TransCanada PipeLines Limited
Calgary, Alberta

Donald M. Wishart
Senior Vice-President, Field Operations
Operations and Engineering Division
TransCanada PipeLines Limited
Calgary, Alberta

Alexander J. Pourbaix
Executive Vice-President, Power Development
TransCanada PipeLines Limited
Calgary, Alberta

[2,3*] **W. Brett Wilson**
Chairman, FirstEnergy Capital Corp.
Calgary, Alberta

EXECUTIVE OFFICERS

Russell K. Girling
Chairman and Chief Financial Officer

Alexander J. Pourbaix
President

[1] *Audit Committee*
[2] *Corporate Governance Committee*
[3] *Independent Directors Committee*
[*] *Committee Chair*

TRANSCANADA POWER, L.P.

OFFICES

TransCanada Power, L.P.
c/o TransCanada Power Services Ltd.
450 – 1 Street SW
Calgary, Alberta T2P 5H1
Telephone: (403) 920-7980
Facsimile: (403) 920-2353
Toll Free: (888) 887-7717

8th Floor, 55 Yonge Street
Toronto, Ontario M5E 1J4
Telephone: (416) 869-2161
Facsimile: (416) 869-2056

AUDITORS

KPMG LLP
Calgary, Alberta

UNITHOLDER INFORMATION

TransCanada Power Services Ltd.
Direct: (403) 920-7980
Facsimile: (403) 920-2353
Toll Free: (888) 887-8818

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: TPL.UN

CASH DISTRIBUTIONS

Scheduled cash distribution payment dates in 2002 are January 30, April 30, July 30 and October 30.

ANNUAL INFORMATION FORM

The Partnership's 2001 Annual Information Form, as filed with Canadian securities commissions, may be obtained from:

Corporate Secretary
TransCanada Power Services Ltd.
450 – 1 Street SW
Calgary, Alberta, Canada T2P 5H1

Designed and produced by **Sutton Javelin Corporate Communications**, Calgary. Printed by **Sundog Printing Limited**, Calgary. Printed on recycled paper.

TransCanada
Power, L.P.

c/o TransCanada Power Services Ltd.
450 – 1 Street SW
Calgary, Alberta, Canada
T2P 5H1

TOLL-FREE: 1 (888) 887-7717
DIRECT DIAL: (403) 920-7980
FACSIMILE: (403) 920-2353

www.transcanada-powerlp.com